Company Name: Group 1 Automotive
Company Ticker: GPI US
Date: 2017-10-26
Event Description: Q3 2017 Earnings Call

Market Cap: 1,641.93
Current PX: 78.73
YTD Change($): +.79
YTD Change(%): +1.014

Bloomberg Estimates - EPS
Current Quarter: 1.903
Current Year: 7.141
Bloomberg Estimates - Sales
Current Quarter: 2816.667
Current Year: 10938.846

Q3 2017 Earnings Call

Company Participants

- Peter C. DeLongchamps
- Earl J. Hesterberg
- John C. Rickel
- Daryl A. Kenningham

Other Participants

- John Murphy
- Rick Nelson
- Brett D. Hoselton
- Derek J. Glynn
- David H. Lim
- Andrew Fung
- David Tamberrino

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen. Welcome to Group 1 Automotive's 2017 Third Quarter Financial Results Conference Call. Please be advised that this call is being recorded. [Operator Instructions]

I would now like to turn the call over to Mr. Pete DeLongchamps, Group 1's Vice President of Manufacturer Relations, Financial Services and Public Affairs. Please go ahead, Mr. DeLongchamps.

Peter C. DeLongchamps

Thank you, Andrew, and good afternoon, everyone, and welcome to today's call. The earnings release we issued this morning and the related slide presentation that include reconciliations related to the adjusted results we will refer to on this call for comparison purposes have been posted to the Group 1's website. Before we begin, I'd like to make some brief remarks about forward-looking statements and the use of non-GAAP financial measures. Except for historical information mentioned during the conference call, statements made by management of Group 1 Automotive are forward-looking statements that are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve both known and unknown risk and uncertainties, which may cause the company's actual results in future periods to differ materially from forecasted results.

Those risks include, but are not limited to, risks associated with pricing, volume and the conditions of markets. Those and other risks are described in the company's filings with the Securities and Exchange Commission over the past 12 months. Copies of these filings are available from both the SEC and the company. In addition, certain non-GAAP financial measures, as defined under SEC rules, maybe discussed on this call. As required by applicable SEC rules, the company provides reconciliations of any such non-GAAP financial measures to the most directly comparable GAAP measures on its website. Participating with me today are Earl Hesterberg, our President and Chief Executive Officer; John Rickel, our Senior Vice President and Chief Financial Officer; Daryl Kenningham, our President of U.S.

Operations; and Lance Parker, our Vice President and Corporate Controller. Please note that all comparisons in the prepared remarks are to the same period prior-year, unless otherwise stated.

I'd like to now hand the call over to Earl.

Earl J. Hesterberg

Thank you, Pete. Good afternoon everyone. Group 1 earned $46.6 million dollars of adjusted net income for the third quarter. This equates to third quarter adjusted earnings per share of $2.23 per diluted share, an increase of 14% over last year. This increase was largely driven by a 16% increase in new vehicle unit sales in our hurricane impacted Houston and Beaumont markets, a very strong performance by our UK operations, and continued recovery in Brazil. Before I make further comments about our quarterly results, I would like to express our heartfelt appreciation to our directors, management team, employees, and business partners who combined to donate $600,000 to assist our employees affected by Hurricanes Harvey and Irma.

Group 1 matched every donation dollar-per-dollar bringing much needed relief to nearly 300 employees victimized by Hurricanes Harvey and Irma. Some of our employees lost everything. The kindness shown by everyone associated with Group 1 was overwhelming. As you know, Hurricane Harvey had a massive impact on our business, while Hurricane Irma was very minor in comparison. We have approximately a dozen stores in the Southeast, which lost seven to 10 days of business due to power outages and other storm-related problems as a result of Irma, but the impact on our third quarter results was minimal compared to Hurricane Harvey. As we previously announced, we incurred $15 million of onetime charges, $14.7 million to be exact associated with things such as lost new vehicle inventory, employee paid during our closure period and so on.

This does not include lost profit from our Houston and Beaumont dealerships during the week the storm hit, which is normally one of the busiest selling weeks of the year in Texas. That is a summary of the negative side of the ledger. On the positive side of the business equation, was the incredible lift in new and used vehicle sales, which began about one week after the storm ended. The daily sales rates in Houston and Beaumont over the last three weeks of September were the highest we have ever seen. Many of our stores did double their normal September new unit volume in only three weeks of operation. These volumes were not as high, but we're still up more than 50% during that three-week period.

There was a bit longer delay in generating above average service volumes as a high percentage of the impacted vehicles were total losses. However, we're now seeing meaningful additional service business from the storm. Another factor in our strong third quarter performance was a noticeable improvement over recent trends in our Oklahoma, Central Texas, and New England markets. These improved results were not related to weather. And finally despite a very weak third quarter auto sales market in the UK, our UK business delivered strong profits and a same-store new vehicle unit sales increase of 3%. That compares to a market, which was down 9%, and our strong UK performance was not limited to new vehicle sales, as we grew both used vehicle retail unit sales and F&I gross profit by almost 10%, and parts and service revenues by 6%.

Turning to our business segments, during the quarter, we retailed over 48,000 new vehicles. Total consolidated new vehicle revenues increased 8% as the average new vehicle selling price increase of 2% combined with 6% more unit sales. Consolidated new vehicle gross profit was up 10% as we continued our trend of new vehicle margin improvements with gross profit per unit up $64 to $1,828. Our new unit sales geographic mix was 73% U.S., 23% UK, and 4% Brazil. This mix reflects the growing strength of our UK business coupled with the September UK license plate change, which carries above average monthly volume. Our new vehicle brand mix was led by Toyota Lexus sales, which accounted for 27% of our new vehicle unit sales. VW/Audi represented 14% of our new vehicle unit sales, and BMW and Ford both represented 11% of our new vehicle unit sales.

U.S. new vehicle inventory stood at 24,000 units, which equates to a supply of 54 days. This is down significantly from 88 days at the end of the second quarter, largely due to the strong demand seen in our Houston and Beaumont markets, but also reflecting better inventory management in our non-storm impacted markets. During the quarter, we retailed over 34,000 used retail units. Consolidated used vehicle retail revenues increased 6%, as the average used retail selling price increase of 2% combined with 4% increase in retail unit sales. This sales result was once again driven by a very strong performance in the UK with a same-store sales increase of almost 10%. Consolidated used vehicle retail gross profit increased 3% as revenues were partially offset by a 2% decline in average gross profit for retail unit.

This per unit decline is explained by the company's focus on selling more vehicles through retail channels and reducing the number of units we send to auction. As a result of this strategy, our wholesale used unit volume decreased, our total used vehicle gross profit per unit increased by 4%. And total used vehicle gross profit increased 6%. U.S. used vehicle inventory stood at 12,400 units, which hit a 30-day supply that's consistent with our historical average. Total after sales revenue and gross profit both increased 5% on a same-store basis driven by increases in warranty of 9%, wholesale parts of 6%, customer pay of 4%, and collision of 2%. We maintain our guidance of mid single-digit same-store revenue growth through 2018. John will touch on the weather impact to our third quarter after sales revenue in a minute.

Adjusted consolidated finance and insurance gross profit increased 8% as an increase in adjusted F&I per retail unit of 3% combined with a 5% increase in retail unit sales. U.S. adjusted F&I per retail unit delivered yet another strong quarterly year-over-year increase, up $85 per unit to $1,673. Regarding our geographic segment results, our U.S. same-store operations saw a total revenue increase of 2%, driven by a 3% increase in new vehicle unit sales, a 5% increase in after sales revenue and a 5% increase in adjusted F&I per retail unit. As previously mentioned, new vehicle sales were very strong in the Houston and Beaumont markets, which more than offset continued weakness in some of our other oil dependent markets. Same-store used retail unit sales were down 2.6%, which is a significant improvement over our travel rate of recent quarters.

In the storm impacted markets, it does seem that many used car customers need to wait for a check from their insurance company before buying. This delayed and tempered the used vehicle sales lift compared with new vehicle replacements. Many of our used car customers need the insurance settlement to serve as a down payment on a replacement vehicle. In the UK, industry sales were down 9% in the third quarter and have declined 4% year-to-date. Our UK operations once again outperformed the industry by a large margin, with same-store new vehicle unit sales increase of 3% in the quarter and used vehicle sales up 9.7%. Our ability to substantially outperform the market in the UK is a function of our growing size and strength in the market, as well as our strong management team. Total same-store revenue and gross profit both grew 9%, thanks to strong performance in each business segment.

We also leveraged same-store SG&A by 130 basis points as we continue our acquisition integration efforts. In Brazil, we generated a significant increase in quarterly profit, despite flat same-store new vehicle unit sales, which was weaker than the overall industry, reflecting both our luxury mix and our focus on increasing margins. We increased overall profitability by growing same-store used vehicle gross profit 25%, after sales gross profit by 28%, and F&I gross profit per unit by 27%, all of which are on a local currency basis. We were also able to leverage the growth in gross profit via continued cost control as SG&A as a percent of gross profit improved 930 basis points to 89.8%. We continue to be very proud of the work our local team has done and are well positioned to take full advantage of a future market recovery.

I will now turn the call over to our CFO, John Rickel to go over our third quarter financial results in more detail. John?

John C. Rickel

Thank you, Earl, and good afternoon, everyone. For the third quarter of 2017, our adjusted net income increased $4.7 million or 11.1% over our comparable 2016 results to a record $46.6 million. These 2017 adjusted quarterly results exclude $16.8 million of net after-tax charges primarily consisting of $9 million of cost directly associated with Hurricane Harvey and $5.9 million of franchise right impairments. On a fully diluted per share basis, adjusted earnings increased 13.7% to a record $2.23. Starting with a summary of our quarterly consolidated results. For the quarter, we generated $3 billion in adjusted total revenues, which was a 6.9% increase from prior year. Our adjusted gross profit increased $31.3 million or 7.7% from the third quarter a year ago to $438 million.

As a percent of gross profit, adjusted SG&A decreased 80 basis points to 72.8% as gross profit flow through equaled 49% in the quarter. Floorplan interest expense increased by $2.4 million or 21.2% from prior year to $13.5 million, which is primarily explained by higher LIBOR interest rates versus last year. Other interest expense increased $800,000 to $17.9 million, also due to higher interest rates. Our adjusted consolidated effective tax rate for the quarter was 36%. We expect our 2017 and 2018 full year tax rates to be between 35% and 36%. Turning now to our geographic segment, starting with the U.S. market on a same-store basis. For the quarter, total adjusted U.S. same-store revenues increased 1.8% to $2.3 billion reflecting an increase of 3.6% in new vehicles, 4.7% in after sales, and 5.2% in F&I.

These increases were partially offset by a 3.4% decline in total used revenues. As Earl mentioned, this used revenue decline was partially caused by a lag in used vehicle replacement demand in our hurricane impacted markets. The 4.7% increase in after sales revenue consisted of increases of 8.3% in warranty, 6.4% in wholesale parts, 3.5% in customer pay and 0.7% in collision. Our overall after sales revenues were negatively impacted by the loss of over a week of business in our hurricane impacted markets of Houston and Beaumont and along the Gulf and Atlantic coast, due to both store closures and lack of demand, as thousands of customers were either out of town, stuck in traffic, or attending the property clean-up.

Also our collision revenues were negatively impacted, as most repairs in our Houston and Beaumont markets were delayed through the month of September due to the lack of rental car availability. We expect collision growth to rebound in the fourth quarter. In total, we estimate that our same-store after sales revenues were negatively impacted by between 1% and 1.5% due to the storms. We reiterate our guidance for mid single-digit same-store revenue growth for the full year of 2017 and through 2018 as well. Total same-store gross profit increased 4%, driven by increases of 7.2% in new vehicles, 5.2% in F&I, and 2.9% in after sales while total used gross profit was essentially flat.

The 7.2% increase in new vehicle gross profit was driven by a 2.5% volume increase and a 4.7% or $84 per retail unit increase to $1,882. This marks the fifth time in the past six quarters that our U.S. new vehicle per retail unit has increased over the prior year. As Earl mentioned, the volume increase was mainly driven by our Houston and Beaumont markets, which more than offset weakness in our other energy dependent markets. Our 5.2% increase in adjusted F&I gross profit was almost entirely driven by the 5% or $80 increase in per retail unit to $1,668 as total retail units were flat. Our after sales gross margin decreased 90 basis points to 53.8% due to less internal reconditioning work, which we reported as 100% margin business. Our adjusted SG&A as a percent of gross profit decreased 90 basis points to 69.9% and adjusted operating margin increased 20 basis points to 4.2%.

SG&A flow through equaled 53% for the quarter. Related to our UK segment, on a same-store basis, with percentage change metric on a constant currency basis. For the quarter, total revenue increased 8.8% or $38.1 million to $468.9 million driven by healthy increases in each business segment. New vehicle revenues increased 6.2%, total used increased 14.4%, F&I increased 9.8%, and after sales increased 6%. As Earl mentioned, our growth of new vehicles was despite an industry decline of 9%, which speaks to the caliber of our brand portfolio and local management team. Our SG&A as a percent of gross profit decreased 130 basis points to 81.6% and operating margin increased 10 basis points to 1.6% as our team continues to assimilate our recent acquisitions and leverage the scale of our 42 dealerships.

Related to our Brazil segment, on a same-store basis, with percentage change metrics on a constant currency basis. As Earl mentioned, our team did a tremendous job increasing used, after sales, and F&I gross profit by double digits to generate total gross profit growth of 19%. This was despite flat new vehicle unit sales where we continue to be disciplined in managing our margins. For the quarter, our new vehicle margins improved 4% to $2,071. Our SG&A as a percent of gross profit also improved declining 930 basis points to 89.8% driven by a reduction in head count, reduced outside service spending and renegotiated lease terms for several of our dealership properties.

As Earl, mentioned we are well-positioned to take full advantage of a future recovery in this market. Turning to our consolidated liquidity and capital structure. As of September 30, we had $66.9 million of cash on hand and another $68.2 million that was invested in our floorplan offset accounts bringing immediately available funds to a total of $135.1 million. We used $1.1 million during the quarter to repurchase roughly 20,000 shares of our common stock at an average price of $53.46. Year-to-date, we have spent $40.1 million to repurchase 650,000 shares of stock at an average price of $61.75. These repurchases represent 3% of the total outstanding common shares at the beginning of the year.

We have $49.6 million remaining on our board-authorized share repurchase program. Also during the third quarter, we used $5.1 billion to pay dividends of $0.24 per share, an increase of 4.3% per share over the third quarter a year ago. Finally, during the quarter, we purchased the previously leased underlying real estate of four U.S. dealerships increasing our U.S. real estate ownership to 57% and we have purchase options in place that would allow us to increase our U.S. ownership to 70% by the end of 2019. We will continue to strategically pursue control over these assets as lease terms near expiration. For additional detail regarding our financial condition, please refer to the schedules of additional information attached to the news release, as well as the investor presentation posted on our website.

With that, I'll now turn it back over to Earl.

Earl J. Hesterberg

Thanks, John. Related to our corporate development efforts, as previously announced, we acquired 15 dealerships in the quarter totaling $425 million in annualized revenues. Three of the dealerships are located in the U.S. consisting of an Audi dealership in Fort Worth, Texas as well as two Land Rover/Jaguar dealerships in New Mexico. These are our first Land Rover and Jaguar dealerships in the U.S. and expand our global network to seven Land Rover and seven Jaguar franchises, with three additional franchise add points having also been awarded in the UK. The other 12 dealerships acquired were the Beadles Group in the UK and we have been very pleased with the early performance by these stores. The Beadles Group will increase our UK annual revenue base to over $2 billion. Also, in early October, we terminated a SEAT sales operation in the UK, which generated $10 million of revenue over the previous 12 months.

This concludes our prepared remarks. I'll now turn the call over to the operator to begin the question-and-answer session. Operator?

Q&A

Operator

We will now begin the question-and-answer session. [Operator Instructions] The first question comes from John Murphy of Bank of America. Please go ahead.

<Q - John Murphy>: Good afternoon guys. Just a first question on the replacing demand buyers you're seeing in Houston and Beaumont. I mean, I was just curious if you can tell what they owned previously and what they were replacing? And really what I'm getting at is trying to understand, how deep in the ownership cycle, some of these people are stepping up meaning that somebody who owned a six-year-old car that got scrapped stepping up or is it somebody that just owned a two-year-old car that's stepping up and replacing it?

<A - Earl J. Hesterberg>: Let me allow Daryl Kenningham to try and answer that for you, John.

<A - Daryl A. Kenningham>: It's hard to draw any consistent conclusions, John. What we saw most was people replacing their vehicles with either similar or same brand vehicles and same type. So if they were in a car, replace it with a car; if they're in an SUV or a truck, replace it with an SUV or a truck, and we saw that generally they would stay within the brand that they lost.

<Q - John Murphy>: Okay. And then the follow-up on that, I mean it sounds like there is a lot of folks waiting for their insurance checks. Any gauge on whether that will impact used or new more or is that just sort of a TBD and you'll have both used and new ready to sell them.

<A - Daryl A. Kenningham>: This is Daryl, again. I believe that you'll see new subside some. You'll see a little bit more used, but those are sort of subtle.

<Q - John Murphy>: Okay. And then a second question in the U.S. I mean it was a big step-up in F&I PVR. This keeps going up. Is there any view that you have that you might be reaching sort of a product limit or is there still room to go as average transaction prices go up? And also, John, as you think about...

<A - Peter C. DeLongchamps>: Hey, John – John, it's Pete. Thanks. Thank you for the question. We did have a terrific quarter, so, nice increases in product penetration, but we think that we've maximized all of our opportunities in F&I.

<Q - John Murphy>: Okay. That's helpful. And then just lastly, it looks like GPUs have reached a relative floor and are starting to maybe bounce a little bit on the new vehicle side. Any commentary there on what you're able to achieve and what you think they'll be going forward? And also, what kind of incentive activity do you see from the automakers that might be somewhat an offset or complicate the situation going forward?

<A - Earl J. Hesterberg>: John, this is Earl. Obviously, margins are difficult to predict, but just to remind everyone, we significantly increased our new vehicle front-end gross margins five of the last six quarters. So, we had been working on that for a long time, which was somewhat necessary because we had sales contracting because of our heavy concentration in the energy impacted markets. So, margin had actually been at the top of our agenda for probably a year and a half or more. So, it's kind of now floating around a similar level. Whether or not we'll be able to maintain that, we'll have to see how supply and demand is balanced out as we go into the winter. I think you know some of the OEMs are making some concentrated efforts to reduce production and get supply and demand lined up, but I think that will be a bigger factor as we move forward than it has been in the past. We've made that our priority over the last year and a half.

<Q - John Murphy>: Great. And then, I'm sorry, just one last question, John, on tax rates. I mean, how direct a benefit would you get if U.S. tax rates on the corporate basis were cut?

<A - John C. Rickel>: It'd be pretty significant, John. As you know, we pay all of the taxes. We don't have any things where we can move stuff through Ireland and take funny deductions like some of the tech companies. So, if there was a 10 or 15 point cut in the corporate rate, that all falls to the bottom line for us, and basically our cash taxes bear a pretty strong resemblance to the profit taxes. So you'd also have a nice cash benefit.

<Q - John Murphy>: Okay. That's very helpful. Thanks, guys.

Operator

The next question comes from Rick Nelson of Stephens. Please go ahead.

<Q - Rick Nelson>: Yeah, thanks. Good afternoon and congrats on a big quarter.

<A - Earl J. Hesterberg>: Thanks, Rick.

<Q - Rick Nelson>: I'd like to follow up on the hurricane impacts and if you could quantify the lift that you saw in the September and how October might be tracking and what sort of tail you think you'll see on this?

<A - Earl J. Hesterberg>: Yeah, Rick. As I mentioned in my script, those three weeks or three weeks plus at the end of September and maybe the first few days of October, we've never seen anything like that before, and I don't think we'll ever see anything like that again. Our Houston stores on new vehicles basically doubled what they normally do; and bear in mind, these are some pretty big stores. Used vehicles were not up to that degree. They were probably up depending on the store 30%, 40% or 50%, probably more like 50%.

But that tapered off, I would say, as we moved into the second week of October. But it's still significant. And I would say that through yesterday, most of our stores in these storm impacted markets are well into double-digit increases over what we would have expected them to sell at this time of year. Obviously, the seasonality as you get into October, November isn't as good as August and September in any year, but there is still significant lift in new and used vehicle sales. And I would expect that to continue well beyond the fourth quarter. Now, it will probably taper off from where it is now, but I think this will last for quite some time.

<Q - Rick Nelson>: Thanks for that color. Also, that UK, bucked the industry trends, I think you mentioned brand mix. But even if we look at your weighted brand mix, you still outpaced the industry.

<A - Earl J. Hesterberg>: Sure, Rick, I'll be happy to answer that. We are an emerging company in the UK and we're quite a strong emerging company. And yes, we have a pretty good brand mix. The power in the third quarter came from our Audi business and our Ford business, and we are now broadening our brand exposure a bit. The most recent acquisition has put us into the Volkswagen network, the Toyota network and we're becoming a reasonably significant Jaguar/Land Rover dealerships. So, we are getting some scale now, and we have some power. And it's always been a good business for us but over the last two years, we made two acquisitions of about a dozen stores each. So now, we've got some muscle.

And we've got a very capable team, and I think that's how we're able to outperform the market. I will tell you that I personally took over operating in the UK last November 1, and by putting Daryl Kenningham in charge of the U.S. operations, and clearly, he's done a pretty good job particularly navigating through things like this hurricane. I've been able to spend a lot of time over there, and we now have 3,000 employees, 43 dealerships, and $2 billion a year in annual revenue. So, it's not a small business anymore, and I think we can continue to outperform the market there. We have some stores that don't perform well, and we've got to improve those or get rid of them. So, I think the UK is a very positive story for Group 1, and I don't think it's a one quarter phenomenon.

<Q - Rick Nelson>: Thanks for that. Finally, If I could ask another question for John here. With the F&I adjustment, that was an add back to revenues, $6.5 million?

<A - John C. Rickel>: Yeah, Rick. This is John. That basically represents a reserve that we put up to take into account that we're going to see elevated charge-backs probably for the next several months. When you sell an F&I product or a contract, and something happens to the vehicle, the customer has the ability to basically get a refund. And what we put up was a reserve for that extra amount that we expect to come in over the next few months.

<A - Earl J. Hesterberg>: Yeah, Rick, and just to make sure everyone understands that. The vast majority of these flooded vehicles from Hurricane Harvey are totaled. And so, they're going to be taken off the road. So, those customers will have the ability to cancel, let's say a vehicle service contract, and have some degree of refund and some of the profit commission we made on those products would be chargeback.

<Q - Rick Nelson>: Okay. Thanks a lot. And good luck.

<A - Earl J. Hesterberg>: Thank you.

Operator

The next question comes from Brett Hoselton of KeyBanc. Please go ahead.

<Q - Brett D. Hoselton>: Good afternoon, gentlemen.

<A - Earl J. Hesterberg>: Brett.

<A - John C. Rickel>: Brett.

<Q - Brett D. Hoselton>: And ladies. Wanted to ask you a little bit about Brazil and kind of two thoughts there. One, structurally, what's your current thinking on Brazil simply because, Earl, you talked about spending more time over in UK, building out your UK presence and so forth. So, structurally you're building that out. What's your thinking on Brazil at this point in time? Are you kind of in a holding pattern or are you going to spend more time and effort there? And then secondly, can you kind of talk about the economy, which has been struggling, but it looks like it may be picking up here a bit?

<A - Earl J. Hesterberg>: Okay. Let me talk about the strategy, and then I'll turn it to John because we just got some new economic data on Brazil, and I'll let him make a couple of comments there. Yeah, through the economic downturn in Brazil, which is what, probably been since the first day we went there, we have down-sized that business to get the weak parts and the fat parts out. And we now have a very strong core of business. We're the largest Honda retailer in the country, good Toyota business, and I think we're the second largest Land Rover and BMW group in Brazil. So, we have 16 dealerships. We also have a Mercedes dealership there, I should mention, but we're too small. Our headquarter size is disproportionate to our operational revenue and gross profit.

So, we would intend to now selectively grow that business. We would benefit significantly from more scale there. We have an incredible management team there that we've developed, good local team, and we've got great brand mix but we could use some more muscle now, some more scale. So, I'm going to work on that. John's been doing some work this year. I'm going to spend more time there next year as well. Actually had our management team in this week from Brazil. And it is true that, although the political situation is always entertaining and not necessarily stable, the economic situation is much more promising. So, let me ask John to give you a little color on that.

<A - John C. Rickel>: Yeah. Last night, the Brazilian Central Bank cut their central, basically their version of their central rates, again another 75 basis points, so that brings them to 7.5%. I think if you're keeping score, about 700 basis points of reductions in about a 12 month period, so that's a pretty stimulative sort of step. Inflation is well under control, the latest readings were under 3%. So, if you were to have the foundation in place, the Congress there has also passed a number of important labor reforms, and they also have declined to pursue basically impeachment actions against the President. So, it appears that their President is going to be in place through kind of the end of his term. So, with that stability, I think there is room for them to continue to pursue some additional reform matters. All of that said, it appears that the foundation now is laid for a recovery and that's why both Earl and I have been spending time with the local team down there, really looking at some additional acquisition opportunities because we really do need some scale at this point.

<Q - John C. Rickel>: Yeah. I think, I'll leave it there. Thank you very much gentlemen.

<A - John C. Rickel>: Thanks.

Operator

[Operator Instructions] The next question comes from James Albertine of Consumer Edge Research. Please go ahead.

<Q - Derek J. Glynn>: Hi, this is Derek Glynn on for Jamie. Thanks for taking the questions. Given you guys lost some days in parts and service sales due to the hurricane, what drove the strength in that comp in the U.S.? Can you just go into more detail on that?

<A - Earl J. Hesterberg>: Well, we were probably on track to have about a 7% gain for the quarter, until we lost all those seven days. So, we've had a lot of effort in parts and service for many years, probably since the recession. So, we were really on track. We had a good summer going and did a lot of marketing actually in parts and service. So, yeah, we would have done a point or two more on the comps probably, if we hadn't missed that time from both the hurricanes.

<A - Daryl A. Kenningham>: Yeah. We saw strength around the country in after sales, including some decent growth in wholesale parts. But we've put a lot of emphasis and focus on a lot of additional marketing and making Saturdays a normal day for our dealerships and for customers and we're seeing that pay off.

<Q - Derek J. Glynn>: Okay. Got it. Thanks. That's helpful. And then secondly, what are the priorities now just from a CapEx and a capital allocation perspective. I mean, given past investments you've made in the businesses, is this the time when you think free cash can meaningfully expand and growth accelerate from here?

<A - John C. Rickel>: Well, certainly, we continue to target – we think acquisitions is our first best use of cash. You've seen that we have pulled the trigger on a few, recently. We added a Jag/Land Rover store, actually two in New

Mexico, where we're the only Jag/Land Rover dealers. We bought another Audi store in Fort Worth, so we're excited about that. And then, of course, the big Beetle's acquisition in UK that Earl talked about. So, we continue to look for acquisition opportunities in all three markets. That's the first best use. And then from there, we basically are opportunistic between share repurchases and dividends.

<**Q - Derek J. Glynn**>: Got it. Thanks, guys.

Operator

The next question comes from David Lim of Well Fargo. Please go ahead.

<**Q - David H. Lim**>: Hi, good afternoon. Just quickly, with the accelerated demand, do you think that the OEMs – or are you guys in need of additional inventory? And do you think the OEMs need to produce more to fill back the lots?

<**A - Daryl A. Kenningham**>: David, this is Daryl. Some – yeah, we're happy with our inventory in total, and we're happy and a lot of brands were tight in Toyota, Honda, Lexus specifically. And that's not necessarily just hurricane impact, that's in several of our markets. But we're happy generally with the rest of them. We're heavy in one or two, but generally we're happy with the rest of them, but Toyota, Honda, Lexus are quite the largest opportunities for us.

<**Q - David H. Lim**>: Got you. Then when I look at your same-store sales units sold, obviously its went up around 2% to 3% versus last year in the U.S. Can you sort of dimensionalize, and you may have already done so already, it looks like you had the hurricane impact and then you had some more in order to cross the finish line ahead of last year. What was the add from the hurricane situation on the new? And then, can you sort of dimensionalize that also for the retail used units as well?

<**A - Earl J. Hesterberg**>: Well, I think the simplistic way to look at it, David, is, we have been traveling in recent quarters at kind of 5% back on same-store sales; new and used haven't been that far off. And we're up 2.5% in new and down 2.5% in used. The vast majority of the difference in those numbers is coming from the hurricane impact.

<**Q - David H. Lim**>: Got you.

<**A - Earl J. Hesterberg**>: And that's because these oil-impacted markets, particularly Oklahoma and Houston in recent quarters, have been down almost 10% in new vehicle sales. So, that's kind of simplistically the positive impact we had from markets like Houston and Beaumont. And we did have a little benefit from New England and some other markets, but it's primarily driven by Hurricane Harvey.

<**Q - David H. Lim**>: Great. Great, thank you so much.

Operator

The next question comes from Andrew Fung of Berenberg Capital Markets. Please go ahead.

<**Q - Andrew Fung**>: Hi. Thanks for taking my question, and good afternoon. I wanted to talk, I guess, a little bit more about the Houston area and underlying demand ex-replacement from the hurricane. You mentioned there was – it's been down 10% in the last few quarters. Do you have a sense of how that is, how that's trending outside of the hurricane replacement? And maybe how we should be thinking about that after the temporary lift?

<**A - John C. Rickel**>: Andrew, this is John Rickel. It's really hard right now to kind of separate the hurricane from underlying demand. As Earl indicated, we were probably traveling something like a down 5% before, but what the hurricane has done is not only the replacement demand but there's also a lot of stimulus money kind of coming into the market now, whether it is construction work on people replacing homes or the federal government pouring a bunch of money in for basically flood infrastructure projects. We think it just changes the fundamental underlying trend going forward, that it will no longer just be the hurricane, it will also be those stimulus effects as you go forward.

<A - Peter C. DeLongchamps>: And Andrew, this is Pete DeLongchamps. The other thing we might want to add as well is that as oil stabilized at $50-plus, there is kind of a different level of consumer confidence than what we saw when oil prices were plummeting in the $30s and $40s. So, I think that also has a positive impact in the Houston community.

<Q - Andrew Fung>: Great. Thank you. And as a quick follow up, could you remind us, which OEMs you are most exposed to in the UK?

<A - Earl J. Hesterberg>: Yeah, certainly. Audi, BMW and Ford are our three big OEMs in the UK.

<Q - Andrew Fung>: Okay. Great. Thank you.

Operator

The next question comes from David Tamberrino of Goldman Sachs. Please go ahead.

<Q - David Tamberrino>: Thank you. Just following up on the questions on the Houston area. For the demand that you've been seeing, can you just kind of give us a sense of the mix? Is it more pickup trucks? Is it kind of along the same lines of folks are going to the new CUVs or crossovers or has there been some more passenger car demand because those are at a lower lying heights that would've been flooded faster?

<A - Daryl A. Kenningham>: We saw some significant sales of Accord and Camry. Remember those cars are building out as well, as new models coming this fall. So, – and we did see that but we didn't really necessarily see across the board a change in our mix between car, truck, SUV from a normal mix.

<Q - David Tamberrino>: Got it. That's helpful. And then I guess following up from that it doesn't sound like you're offside on any inventory for any dealer, but are you finding it harder to get pickups or crossovers or is it kind of the availability is still there from the OEMs?

<A - Daryl A. Kenningham>: We're happy with our inventory and we're pleased where the OEMs are generally.

<Q - David Tamberrino>: Okay. Got it. And following on the lines from earlier talking about the UK, lot of opportunity there, Brazil as well. SG&A has kind of continued to improve. How much further in each region do you think you have to go in order to kind of leveraging your fixed cost and kind of taking some of the shared best practices and putting it throughout your network.

<A - Earl J. Hesterberg>: Okay, this is Earl. I'll address that. In Brazil, I don't think we have a lot more costs we can cut. We have been aggressively doing that during the downturn because that's what you do during a downturn. Now, our leverage will come from adding gross profit and volume. So I would say, we're lean in Brazil, need to be bigger. In the UK, we still have a lot of room to work on cost, primarily because we've had two fairly large acquisitions in the last 20 months or so, certainly within the last two years. There's a lot of work to integrate those. And we still – one of the reasons I'm running the UK business last year is to get it structured properly. We don't have the headquarters. We now have some efficiency from some shared support operations. And as you do that over time, there is some cost efficiency. So I think we have a lot of runway for cost improvement in the UK. And we're in the middle of working on that.

<Q - David Tamberrino>: And in the U.S.? I'm sorry, I might have missed it.

<A - Earl J. Hesterberg>: In the U.S., I think there's always more room. Because we have a big operation and we've had to do that as a company, because we've been in these oil impacted markets, where we had some contraction on sales volumes. So we've been working that pretty well for a year-and-a-half, but there is certainly significantly more cost room to improve our business equation in the U.S. No doubt.

<Q - David Tamberrino>: Understood. Thank you very much.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Earl Hesterberg, President and Chief Executive Officer for any closing remarks.

Earl J. Hesterberg

Okay. Thanks to everyone for joining us today. We look forward to updating you on our fourth quarter earnings call in February.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.